

ORIGINAL

NEW APPLICATION



BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-15-0322
TUCSON ELECTRIC POWER COMPANY FOR)
THE ESTABLISHMENT OF JUST AND)
REASONABLE RATES AND CHARGES)
DESIGNED TO REALIZE A REASONABLE)
RATE OF RETURN ON THE FAIR VALUE OF)
THE PROPERTIES OF TUCSON ELECTRIC)
POWER COMPANY DEVOTED TO ITS)
OPERATIONS THROUGHOUT THE STATE OF)
ARIZONA AND FOR RELATED APPROVALS.)

**NOTICE OF INTENT TO FILE A
RATE CASE APPLICATION**

ORIGINAL

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, provides its 60-day Notice of Intent to File a Rate Case Application for the establishment of just and reasonable rates. TEP intends to file a rate case application on or about November 5, 2015 using a test year for the twelve months ending June 30, 2015 ("Test Year").¹ TEP will request that its Application be approved for new rates to become effective on January 1, 2017.

I. OVERVIEW OF KEY RATE CASE ISSUES.

TEP's current rates were established by the Arizona Corporation Commission ("Commission") in Decision No. 73912 (June 27, 2013), based on a test year ending December 31, 2011 with rates that went into effect on July 1, 2013.

Several factors require TEP to file a rate case at this time:

1. Since its previous test year, TEP has made approximately \$1.3 billion in generation, transmission and distribution plant investments to maintain and improve safe, reliable and

¹ The Company's rate case filing will consist of (i) a rate case application; (ii) supporting schedules pursuant to A.A.C. R14-2-103; and (iii) direct testimony. TEP will also provide Staff with work papers, and responses to up front data requests in conjunction with its filing.

1 economic electric service. For example, in December 2014, TEP acquired a 75% interest in Gila
2 River Unit 3, a 550 MW combined cycle gas-fired generation facility for approximately \$165
3 million. The acquisition facilitates the Company's plan to reduce its reliance on coal-fired
4 generation and build a cleaner, more diverse energy portfolio.

5 2. TEP has incurred other increases in costs necessary to ensure the continued safety and
6 reliability of its system to benefit its customers.

7 3. TEP also has experienced a reduction in usage per customer and retail sales volumes
8 due to various factors, such as the increasing deployment of net metered solar photovoltaic rooftop
9 distributed generation ("rooftop PV") and the adoption of energy efficiency measures.

10 4. The deployment of net metered residential rooftop PV systems in TEP's service area is
11 currently shifting a significant amount of fixed cost recovery from net metered customers to other
12 customers through TEP's Lost Fixed Cost Recovery ("LFCR") mechanism.

13 5. In addition to the cost recovery being shifted to the non-net metered customers, the
14 Company is not being afforded a reasonable opportunity to earn its authorized rate of return
15 because the LFCR is not designed to capture all of the lost fixed cost revenues associated with
16 meeting the Commission's Renewable Energy Standard, Energy Efficiency Rules and Net
17 Metering Rules.

18 TEP is therefore filing this rate case to: (i) ensure its ability to provide safe and reliable
19 service to its customers; (ii) reflect a cleaner, more diversified resource portfolio; (iii) recover its
20 full cost of service, including a reasonable opportunity to earn appropriate return on invested
21 capital; (iv) adopt updated rate designs that respond to changing customer energy consumption
22 and equitably allocate recovery of the Company's costs; (v) maintain or improve its credit rating;
23 and (vi) update its Rules and Regulations and to request other related approvals.

24 TEP expects to raise the following key issues in its rate filing:

- 25 • **Proposed Capital Structure.** TEP will propose the use of its actual test year
26 capital structure, adjusted for recent long-term debt retirements.

- 1 • **Cost of Equity.** The Company will propose a cost of equity that is based on
2 current capital market conditions.
- 3 • **Cost of Debt.** The Company will propose a cost of debt that reflects its current
4 cost of debt.
- 5 • **Fair Value Rate of Return.** TEP will propose fair value rate base and a return on
6 fair value rate base in accordance with the Arizona Constitution.
- 7 • **Treatment of New Generation Assets.** TEP will propose rate base treatment of
8 its new ownership interest in generation assets.
- 9 • **Treatment of Certain Coal Assets.** The Company will propose regulatory
10 treatment regarding certain coal assets to be retired.
- 11 • **Post-Test Year Plant.** The Company is proposing to adjust TEP's rate base to
12 include as post-test year plant used and useful plant additions that are expected to
13 be in service by December 31, 2016.
- 14 • **Changes to Depreciation Rates.** TEP will present the results of an updated
15 depreciation study and propose changes to the depreciation lives and rates
16 applicable to the Company's plant in service.
- 17 • **Modifications to the Purchased Power and Fuel Adjustment Clause**
18 **("PPFAC").** TEP will request modifications to its PPFAC, including converting to
19 a 12-month rolling average PPFAC rate and modifying that rate to be calculated as
20 a percentage of base fuel charges, rather than a flat per kilowatt hour (kWh) energy
21 rate.
- 22 • **Modifications to the Environmental Cost Adjuster and Lost Fixed Cost**
23 **Recovery Mechanism.** TEP will request changes to these existing mechanisms to
24 provide the Company an opportunity to recover the costs incurred to provide safe,
25 reliable service.
- 26 • **Rate Design.** The Company will propose numerous rate design changes intended
27 to more appropriately allocate its fixed infrastructure and delivery costs, including:

- **Increased Basic Service Charge.** TEP will propose an increase to its monthly basic service charges in a continuing effort to better match that charge to the appropriate fixed costs.
- **New Economic Development Rate.** The Company will propose an economic development rate in order to facilitate economic growth in TEP's service area.
- **Pre-paid Service.** TEP will propose a prepaid tariff option for residential customers.
- **Revised Net Metering Tariff.** TEP will propose a revised net metering tariff that modifies how net metered customers receive credit for excess energy that is generated by those customers' net metered generation facilities. TEP will request that: (i) all net metered customers that submitted approved applications for interconnection by June 1, 2015 be grandfathered under the current net metering tariff and (ii) the new net metering tariff apply prospectively – from the effective date of new rates - to all net metered customers that did not submit approved applications for interconnection by June 1, 2015.²
- **Partial Requirements Service Rates.** The Company will propose a new rate design for customers supplying all or a portion of their energy needs with on-site generation.³
- **Revisions to Certain Commercial Customer Classes.** TEP will propose changes to the General Service classes that result in new, more homogenous classes with like-sized customers. For the larger General Service classes, the Company will propose a change to the Power Factor provision.

² Under TEP's proposal, except for those customers grandfathered under the current net metering tariff, the terms of any new net metering tariff will apply from the effective date of new rates – it will not be applied retroactively.

³ With respect to net metered customers, the applicability of the new partial requirements service rates will parallel the applicability of the new net metering tariff.

- **Revised Time-of-Use Rates.** TEP will propose modifications to the on-peak and off-peak rates, including the addition of tiers where the equivalent standard rates contain tiers.
- **Buy Through Tariff.** Pursuant to the recent Fortis merger settlement agreement, TEP will present a buy through tariff with provisions designed to protect non-participating customers from unintended fixed-cost shifts.
- **High Voltage Rate.** The Company will propose a rate for customers that take service at 138kV or higher.
- **Revisions to Rules and Regulations.** TEP will propose revisions to its Rules and Regulations.

In addition to the issues described above, TEP will propose a number of standard pro forma adjustments to the historic test-year rate base, income and expenses.

II. TENTATIVE WITNESS LIST.

To support the Company's request and the issues identified therein, the following is a preliminary witness list for TEP and the topic each will address in their pre-filed direct testimony:⁴

David Hutchens:	Overview of TEP's rate application and primary proposals, including the need for the modified rate design.
Susan Gray:	Overview of TEP operations.
Michael Sheehan:	Overview of TEP's generation portfolio.
Carmine Tilghman:	Scope and impact of the deployment of distributed generation in the TEP service area; utility scale solar facilities.
Kentton Grant:	Capital structure and overview of TEP's financial condition, including anticipated capital needs, credit ratings and ratings agency matters; cost of debt; cost of credit support for fuel and purchased power procurement; rate base treatment of certain generation facilities.

⁴ This preliminary list of witnesses is subject to change between now and the date of the rate filing.

1 Ann Bulkley: Cost of equity; fair value rate base; and fair value rate of return.
2 Frank Marino: Compliance with Fortis merger conditions; regulatory treatment of
3 certain coal assets; income tax and property tax; revenue
4 requirement, including rate base, income and expense adjustments.
5 Dallas Dukes: Revenue requirement, including income and expense adjustments;
6 rate base and income statement pro forma adjustments; post-test
7 year plant adjustments; Reconstructed Cost New Less Depreciation
8 (RCND); depreciation expense; proposed rate design.
9 Craig Jones: Cost of service study; proposed rate design; revisions to the base
10 cost of fuel and purchase power; modifications to the cost recovery
11 mechanisms; and revisions to tariffs.
12 Denise Smith: Revisions to TEP's Rules and Regulations; customer satisfaction
13 initiatives and customer assistance programs; compliance waivers.
14 Dr. Ron White: Depreciation methodology and rates
15

16 **III. LOCATION OF HEARING.**

17 TEP's service territory is in Pima and Cochise Counties. TEP will be requesting to have
18 its rate case hearing conducted in Tucson.

19 **IV. CONCLUSION.**

20 TEP intends to file its rate case on or about November 5, 2015 with the proposed effective
21 date of new rates to be January 1, 2017.

22 RESPECTFULLY SUBMITTED this 4th day of September 2015.

23 TUCSON ELECTRIC POWER COMPANY

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9 Original and 13 copies of the foregoing
10 filed this 4th day of September 2015, with:

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15 Copies of the foregoing hand-delivered/mailed
16 this 4th day of September 2015, to:

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